GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3389
ANSWERED ON:18.12.2015
Reducing Interest Rates
Yeddyurappa Shri B. S.

Will the Minister of FINANCE be pleased to state:

(a) whether the Union Government has received representations from States to reduce the interest rate on loans granted under various development programmes, State/UT-wise including Karnataka; and

(b) if so, the details thereof and the action taken by the Government thereon?

Answer

MINISTER OF STATE IN MINISTRY OF FINANCE
(SHRI JAYANT SINHA)

(a) and (b): No representation from States has been received in recent past in Ministry of Finance to reduce the interest rate on loans granted under various development programmes.

2. Under the Debt Consolidation and Relief Facility (DCRF) recommended by the Twelfth Finance Commission (TFC), Central loans amounting to Rs.1,22,604 crore from Ministry of Finance contracted by the States upto 31.03.2004 were consolidated for a fresh tenure of 20 years at an interest rate of 7.5% per annum resulting in interest relief of Rs. 18688 crore to eligible States including Karnataka. Thirteenth Finance Commission has also recommended reset of interest rates on loans from National Small Savings Fund, contracted up to 2006-07 and outstanding at the end of the year preceding the year of enactment/amendment of the States' FRBMAs, at a common rate of 9% per annum. The total interest relief provisionally granted to the States, including Karnataka, was Rs. 5222 crore on this account from 2010-11 to 2013-14.

3. As regards the lending policy regarding Central Government Loans, TFC had inter-alia recommended that the Central Government should not act as an intermediary for lending to States. In accordance with TFC recommendation, Central Government has discontinued its loan intermediation role and stopped direct disbursement of Central loans to the States from TFC Award period 2005-10, except for EAP loans transferred on back to back basis. TFC further recommended that external assistance may be transferred to State on the same terms & conditions as attached to such assistance by external funding agencies, thereby making Govt. of India a financial intermediary without any gain or loss. Accordingly, loans to States are being passed on back to back basis and on the same terms and conditions of the donor agencies.
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